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Niche Marketing Opportunities Through Lamb Cooperatives

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Niche Marketing Opportunities Through Lamb Cooperatives

Tamra Kirkpatrick Kazmierczak and James B. Bell
Department of Agricultural Economics
Virginia Polytechnic Institute and State University,
Blacksburg, Virginia

Sheep producers are increasingly considering organizing producer cooperatives to market lamb to niche markets such as retail food stores, restaurants, mail order sales, and specialty wholesalers. The organizational, physical, and operational attributes of several established and newly organized lamb marketing cooperatives as well as several emerging producer groups are briefly described. The types of market outlets, quality niches, and value-added products targeted by these groups are described in more detail. Specific cooperative marketing strategies addressing issues such as supply consistency, quality consistency, buyer satisfaction, and member satisfaction are also included. Member equity, sources of non-equity capital, recordkeeping, financial statements, and financial planning are briefly described for producer groups organizing a niche marketing cooperative for lamb.

Key Words: Cooperatives, lamb, niche marketing.

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Preface

Between 1989 and early 1992, 11 producer groups in Alabama, Iowa, Minnesota, New Mexico, New York, Ohio, Oregon, Pennsylvania, Utah, Virginia, and Wisconsin examined or are currently examining the possibility of forming cooperatives to market their lambs to niche markets. These niche markets are attractive to many producers and producer groups because they provide an alternative to the lack of consistent profitable sales opportunities through auction buyers, order buyers, packer buyers, and commission salesmen. Niche marketing cooperatives represent a significant change in the role of marketing cooperatives in the sheep industry. Agricultural Cooperative Service (ACS) initiated this study to provide information on these rapidly developing cooperatives.

The size and scope, organizational structure, facilities and equipment, processing arrangements, inspection and grading activities, and operational procedures of four lamb marketing cooperatives and three producer groups are briefly described. The niche markets targeted by these groups include retail food stores, restaurants, mail order businesses, and specialty wholesalers. Niche markets are further identified through product quality characteristics such as lean meat, organically produced lamb, gourmet quality meats, religious certification, and regional identity of the production area. Examples of value-added products being developed and tested by several producer groups are also discussed. Specific cooperative marketing strategies addressing issues such as supply consistency, quality consistency, buyer satisfaction, and member satisfaction are included. Limited information on member equity, sources of non-equity capital, recordkeeping, financial statements, and financial planning is included for producer groups considering organizing a lamb marketing cooperative.

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David Kennedy, Yankee Shepherd Cooperative, provided invaluable assistance to the authors by sharing his experiences and insights gained from managing the oldest lamb marketing cooperative targeting niche markets. In addition, Anita Richards of Livestock and Meat Brokering Cooperative, New York; Bill Blaha of the Minnesota producer's group; Bonnie Young and Junior Goring of Mountain Lamb Cooperative, Utah; Don and Virginia Wilkinson of the Oregon producer's group; Patricia Quintana and Antonio Manzanares of Pastores Lamb, New Mexico; and Leo Tammi and Tom Olivier of Virginia Lamb Cooperative, Virginia also helped the authors gain a better understanding of their groups' marketing activities and goals. Last but not least, professor Norman Marriott, Department of Food Science and Technology at VPI and SU, helped the authors understand the Federal meat inspection and grading processes.

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Highlights

Farmer cooperatives have opportunities to market lamb and lamb products to niche markets. Information on some of these opportunities was obtained by interviewing two established lamb marketing cooperatives and five emerging producer groups during the summer of 1991. Followup interviews were conducted in January 1992, at which time two of the five producer groups had formally organized as cooperatives and were scheduled to begin marketing activities within the next few months.

The characteristics of established and emerging lamb marketing cooperatives have a bearing on the type of niche markets each group is able to target. The groups interviewed are diverse and located all over the country. They have between nine and 100 producers with flock sizes ranging from eight to 6,000 ewes. The established and newly organized cooperatives have all hired managers to run their marketing operations but few have any other employees. Most have avoided office costs by having their managers work out of their own homes. These cooperatives have their lambs slaughtered through custom agreements with established slaughter facilities and have their product Federally graded. Most organize a schedule for their members to deliver lambs to the slaughter facility and all the cooperatives arrange for delivery of the carcasses or cuts to buyers.

The niche markets targeted by established and newly organized cooperatives include retail food stores, restaurants, mail order businesses, and specialty wholesalers. Niche markets can be further identified through product quality characteristics such as lean meat, organically produced lamb, gourmet quality meats, religious certification, and regional identity of the production area. The cooperative must work closely with its producers and its custom slaughterer to produce the quality characteristics required by various buyers. Value-added products can increase sales of slow-moving cuts, provide an outlet for cull ewes, and make quality meat more attractive to the consumer. Despite these potential benefits, the cost of developing, packaging, and marketing value-added products is prohibitive to most lamb marketing cooperatives at this time.

Lamb marketing cooperatives must develop marketing strategies that will enable them to compete successfully with other lamb marketing businesses. These strategies include developing programs for supply consistency, quality consistency, buyer satisfaction, member satisfaction, and product promotion. In addition, lamb marketing cooperatives must take precautions to decrease their vulnerability to the increasing concentration of buying power in the food industry.

To organize a cooperative, producer groups should conduct a feasibility study, set planning horizons, determine sources of capital, and, if the venture is deemed feasible, develop a charter and bylaws. Once organized, members should expect to invest in the equity base of the cooperative. The board of directors will be elected from the membership and they will hire a manager. The manager will be responsible for the day-to-day operations of the cooperative, including purchasing lambs from members, overseeing the processing operations, and locating market outlets.

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James B. Bell

Characteristics of the sheep industry at the beginning of the 1990's are such that opportunities exist for individual producers and groups of producers to increase their returns by direct marketing their lamb to niche markets. Marketing to niche markets is a process that strives to identify, anticipate, and satisfy the specific requirements of known customers and thereby enhance the profitability of the enterprise. The lack of consistent, profitable sales opportunities through auction buyers, order buyers, packer buyers, and commission sales representatives has encouraged many producers to search for other marketing opportunities.

Niche markets such as specialized food stores, restaurants, mail order sales, and specialty wholesalers provide opportunities for some sheep operations to receive higher returns than from more traditional market outlets. Quality niches within these market outlets provide additional opportunities for lamb producers to produce and market lamb with specific quality attributes. Desired attributes include lean lamb, organically produced lamb, gourmet cuts, lamb certified as conforming to specific religious dietary laws, and high quality lamb produced within a consumer's own region. Value-added lamb products are also being developed by many producers to increase the market potential for their lambs.

Marketing cooperatives are the most common organizational method being used by groups of producers to market their lambs to niche markets. Cooperatives are owned by producers, used by producers, and provide above-traditional market returns to producers when operated successfully. Larger volume achieved by producers through a cooperative enables them to successfully

target niche markets that could not be targeted by most single producers.

This report describes types of niche markets available to lamb marketing cooperatives, as well as some marketing strategies that can help make these cooperatives a long-term solution for their members' lamb marketing problems. Some information is also included on organizing a cooperative, in addition to a list of publications of interest to established cooperatives or producer groups examining the possibility of organizing a lamb marketing cooperative.¹

ESTABLISHED AND EMERGING COOPERATIVES

Much of the information presented in this publication is based upon interviews with established and emerging lamb marketing cooperatives conducted during the summer of 1991 and followup interviews conducted during January 1992. Two established cooperatives in New York and Vermont, as well as five producer groups in Minnesota, New Mexico, Oregon, Utah, and Virginia agreed to participate in the study. By the end of 1991, two of the five emerging groups had formally organized as cooperatives and planned to

¹ Individual producers striving to increase farm revenues by marketing lamb direct to individual consumers should obtain a recently published Virginia Polytechnic Institute and State University study by Kazmierczak and Bell. The publication entitled *Direct Marketing Lambs and Wool to the Public* was reprinted by the American Sheep Industry Association's Sheep Industry Development Program as PUB-12 under the title *Marketing Out of the Mainstream: A producers' guide to direct marketing of lamb and wool*.

begin marketing lamb within a few months. A description of these groups' size and scope, organizational structure, facilities, processing arrangements, and operational procedures is included in the following sections.

Size and Scope

Yankee Shepherd, the oldest established lamb marketing cooperative, was organized by 37 producers in Vermont, Massachusetts, and New Hampshire in the spring of 1984. The cooperative has 90 members and markets just over 100 lambs per week. The percent of each member's lambs marketed through the cooperative varies between 20 and 100 percent. Although most of Yankee Shepherd's members market fewer than 50 lambs a year through the cooperative, three members annually market between 500 and 1,000 lambs each through the cooperative. Yankee Shepherd's primary buyers are independent retail food stores and shops specializing in high quality meat.

The Livestock and Meat Brokering Cooperative (L.A.M.B) organized and began marketing activities in the summer of 1989 with eight members. The cooperative's membership has increased to 47 members located throughout New York State. L.A.M.B. markets 40 lambs per week representing about 60 percent of members' production. Flock sizes of the cooperative's members range from eight to 600 ewes with the average flock containing 130 ewes. In addition to lamb, the cooperative also markets rabbit and pork for its members. Although L.A.M.B. has diverse market outlets, its major buyer is a distributor who markets to French restaurants.

Among the emerging cooperatives is a group of producers in Virginia that has worked with the Agricultural Cooperative Service (ACS) in the U.S. Department of Agriculture to conduct a producer survey, market analysis, and a feasibility study. This group formally incorporated as Virginia Lamb Cooperative, Inc., in December 1991, and has 45 charter members. These members have committed a total of 5,500 lambs per year to the cooperative, representing from one-third to more than one-half of each member's total production. The coopera-

tive initially plans to market whole carcasses to small butchers and independent retail food stores in the Northern Virginia area. However, they plan to break carcasses in the future and have already developed and purchased the materials necessary to market boxed lamb. The cooperative hopes to consistently market 100 lambs per week after a 6-month startup period.

Nine ranching families in Utah also worked with ACS to complete a feasibility study and recently organized the Mountain Lamb Cooperative after receiving a positive recommendation from ACS. The members of this cooperative raise their sheep on the open range and have flock sizes of between 1,000 and 6,000 ewes. The cooperative plans to market 10,000 lambs its first year. This represents about one-third of the lambs produced by members. The cooperative will be targeting retail food stores and restaurants with vacuum packed retail cuts. The lamb is processed to produce a lean, seasoned product. It is packaged and labeled with the cooperative's brand and nutritional information on each package to increase consumer recognition of its low-fat, high-quality product.

Pastores Lamb is a group of 18 producers in New Mexico with an average flock size of 40 ewes. These producers have been marketing lamb since 1988 through the Ganados De Valle development corporation. Ganados De Valle subsidizes developing businesses that use the natural, human, and cultural resources available in the area until the business becomes economically independent. At such time, the development corporation helps the producers form a self-sustaining cooperative. Pastores Lamb marketed 400 lambs to the natural/organic restaurant markets in New Mexico in 1990. The organization has plans to market 600-700 lambs and begin targeting home customers in Albuquerque, Sante Fe, and Taos.

Twenty producers in Oregon have contacted ACS to help determine the feasibility of forming a lamb and mutton marketing cooperative. These producers have between 25 and 1,400 ewes with the average flock size of around 500 ewes. They are primarily interested in marketing value-added lamb and mutton products. Some of these producers are already marketing these products directly to

restaurants, retail food stores, and consumers in the area as well as through mail order channels.

A group of 40 producers in central Minnesota is in the very early stages of exploring the possibility of lamb marketing. These producers are new to lamb production and on average have fewer than 100 ewes. This group would like to target the summer barbecue market in the lakes region of Minnesota to bypass the problems associated with year-round production. Despite early efforts to make their product available to vacationers through retail food stores, seasonality of supply remains a problem.

Organizational Structure

The established cooperatives are all small and are organized as traditional cooperatives. Publications describing the structure, operations, and management of traditional agricultural cooperatives can be obtained from ACS and are listed in the Appendix. This discussion will concentrate on describing the responsibilities of member producers, directors, and the manager that are typical of established lamb marketing cooperatives.

A board of directors is elected by the cooperative's members immediately after the cooperative is incorporated and only members of the cooperative are eligible to serve as elected directors. Directors set the cooperative's policy on membership requirements, product purchasing, sales, capital acquisitions, and management. Directors hire the cooperative's manager and evaluate his or her performance. Other employees, when hired, should be hired and evaluated by the manager.

The established and newly organized lamb marketing cooperatives have five to 10 directors with staggered 3-year terms so they maintain experienced directors at all times. Directors are limited to two consecutive terms and meet regularly every 1 to 3 months. In one case, half of the cooperative's directors represent members within set geographical regions and the other half are at-large directors. The offices of president, vice president, secretary, and treasurer are held by directors in all of the cooperatives.

Once the manager is selected by the board, he or she is responsible for the daily operations. These operations include but are not limited to:

- maintaining good relations with producer members;
- maintaining an inventory schedule of when members' lambs will be ready for slaughter;
- arranging for timely delivery of lambs to slaughter facility;
- maintaining complete records of member and buyer transactions;
- calculating grower payments;
- identifying and developing new market outlets;
- negotiating prices with buyers;
- delivering or arranging for delivery of lamb to buyers;
- conducting promotions and public relations activities;
- maintaining the cooperative's quality standards for all product sold;
- ensuring the prompt payment of accounts;
- and
- keeping the board of directors informed of the cooperative's position.

These responsibilities are usually more than one person can handle even for the smallest of cooperatives. Established and newly organized cooperatives have delegated various operational responsibilities to paid employees, board members, or members. One cooperative hired part-time drivers and occasional secretarial help to allow the manager to concentrate on the marketing concerns of the cooperative. Other cooperatives have avoided salary and wage costs by designating specific directors to be in charge of recordkeeping and lamb inventories. Most cooperatives require members to deliver or arrange for the delivery of their lambs to the slaughter facility on specific dates set by the manager.

Facilities and Equipment

All the established and newly organized lamb marketing cooperatives did not purchase and do not plan to purchase their own slaughtering and processing facilities. Most of these cooperatives

have avoided the cost of renting or purchasing office facilities by having the cooperative's manager work out of his or her own home. In these cases, the cooperatives have usually installed a separate phone line in the manager's home and supplied the manager with a microcomputer and software.

The only other equipment owned by these cooperatives is a refrigerated truck to transport lamb carcasses and cuts to buyers. One established cooperative has a refrigerated tractor trailer truck and a newly organized cooperative has a smaller single body refrigerated truck. Another established cooperative was able to avoid these capital costs by borrowing a cooler box designed for the back of a pickup truck from the State's land-grant university.

Processing Arrangements

Lamb marketing cooperatives have several alternatives for processing their lamb: a custom slaughter agreement with one or more facilities, a joint venture involving a partnership with an established facility, leasing a facility, purchasing a facility, or building a new slaughter plant. Established lamb marketing cooperatives slaughter their lambs under custom slaughter agreements with one or two facilities in the area.

Custom slaughter contracts with meat packing plants allow the cooperative to avoid having to raise capital to construct a slaughter facility. Other important benefits of such an agreement include access to experienced personnel, no waiting period while the plant is built or modernized, and no concerns by the cooperative about volume requirements to minimize plant operating costs. Some disadvantages of a custom slaughter contract include the lack of control over the plant's management and personnel; the difficulty in having new equipment or facilities installed; the limited options for value-added processing and packaging; and the inability to choose a plant location that minimizes transportation costs. Another factor that makes this option difficult for some groups is the decline in the numbers of stable, Federally inspected slaughter facilities.

To overcome the lack of control over value-added and packaging options encountered in cus-

tom slaughter agreements, some cooperatives have considered purchasing specialized equipment for use by a custom slaughter operation when processing the cooperative's lamb. A Cryovac machine to vacuum pack lamb cuts is the most common piece of equipment considered. Alternate arrangements for securing equipment include joint purchases with the slaughter facility operator and, when needed, working out an agreement to enable the operator to use the equipment on product other than those of the cooperative.

Inspection and Grading

Federal Inspection The custom slaughterer selected by the cooperative should be under Federal inspection so the cooperative will have access to both intra- and inter-state markets. All meat offered for sale must be slaughtered and packaged in an inspected facility according to the Wholesome Meat Act (Pub. L. No. 90-201, 81 Stat. 585(1967)). Although the act does allow for State inspection programs that meet or exceed the Federal requirements, only Federally inspected meat can be sold across State lines. Since many smaller custom slaughterers do not operate under Federal inspection, cooperatives may have to contact their State department of agriculture to locate an inspected facility.

The purpose of the inspection law is to protect consumers by preventing the sale of diseased animals for human consumption. While the inspection procedure does make it more difficult to market lamb to niche markets, it also provides some protection to the cooperative from claims of selling unwholesome meat. The decline in recent years in the number of Federally inspected facilities has resulted in cooperative's members having to transport lambs over greater distances to reach inspected plants.

A detailed written agreement between the cooperative and each slaughter facility with which it operates is necessary if the cooperative and the custom slaughterer expect the arrangement to be satisfactory. Careless handling, holding carcasses at an improper temperature or relative humidity, haphazard cutting, inadequate packaging, and many

other practices of the custom slaughterer will affect the quality of the meat and the buyer's satisfaction with the purchase. Therefore, the cooperative should work out an agreement on the processing practices that will affect product quality and institute a written agreement with the custom slaughter facility before the first lamb is sold. Items that should be considered as a part of the agreement include: 1) the custom slaughter charges, 2) the procedures used to separate the cooperative's carcasses from other lamb carcasses, 3) the procedures to avoid the mixing of warm and cold carcasses, 4) the temperature and humidity at which the carcasses are held, 5) the fabrication and packaging specifications, 6) the labeling specifications, 6) the billing procedures, 7) the number of lambs the cooperative can deliver per day, and 8) the acceptable delivery and pickup times.

Federal Grading Niche markets, such as restaurants, retail food stores, and butcher shops, often demand or prefer Federal grading of their lamb as an assurance of standardized quality. Federal inspection and Federal grading are two different services offered through USDA. The purpose of Federal inspection is to certify the healthful or sanitary aspects of meat while the purpose of Federal grading is to determine the presence of specific quality and yield factors of the meat. In most cases, Federal inspection is provided free of charge to slaughter facilities, while cost of Federal grading is charged to the organization requesting the service.

Federal graders are trained to perform two types of grading services, quality grading and yield grading. Quality grading provides a subjective estimation of the predicted palatability of the meat and is automatically performed when grading is requested. Yield grading involves determining the relative value of carcasses based upon the percentage of retail cuts they contain. Although legislation is pending to combine the two types of grading, yield grading and quality grading must be requested separately.

The cost of grading can increase the total processing costs for the cooperative, but the assurance of standardized quality is important to many buy-

ers. In addition, if both quality and yield grading is used, then the cooperative can pay price incentives to producers of lambs in line with buyers' quality demands. The Food Safety and Inspection Service (FSIS) bills for grading on an hourly rate. Where a Federal grader does not reside in the immediate area, the cooperative will also be billed for the grader's transportation, room, and board costs. If the custom slaughter operator is using the grader in other operations, then the costs of the grader may be shared with the cooperative.

Other Certification Programs Other certification programs are required or preferred by buyers in specific market outlets. Established and newly organized cooperatives have targeted the Certified Fresh American Lamb program of ASI, Jewish kosher lamb, and Islamic halal lamb. The ASI Certified Fresh American Lamb program is aimed at assuring buyers of a leaner carcass. This program measures the depth of fat between the 12th and 13th rib, requires at least one breakpoint, and requires that secondary sex characteristics are not present. The Federal grader is able to perform this certification.

One State certification program for Islamic halal meat allowed a cooperative to market halal lamb in local retail food stores. Another cooperative pays the wages, transportation, room, and board for a Jewish rabbi as part of the kosher inspection and certification process. To be labeled as kosher, a lamb carcass must pass stringent standards. The percentage of carcasses passed by this rabbi has ranged widely from 30 to 85 percent.

Operational Procedures

Operational procedures of established and newly organized lamb marketing cooperatives have many similarities. Cooperatives usually require members to place lambs marketed through the cooperative in an inventory program from which the cooperative can schedule marketing activities. Some cooperatives require the members to weigh lambs on a weekly basis as well as keep the manager informed of estimated finishing dates. The cooperatives' manager or other designated

representative contacts members when lambs are needed at the slaughter facility.

Most of the cooperatives have their members deliver their lambs to the slaughter facility when the lambs reach a certain level of finish. These cooperatives are primarily made up of small-scale producers who deliver up to 15 lambs to the slaughter facility in the back of a pickup truck. This delivery system seems to be economical within a 100-mile radius of the slaughter facility. Greater distances require producers or the cooperative to arrange for joint transportation for lambs from different farms to the slaughter facility.

The lambs are delivered to the slaughter facility, killed, cooled, graded, and weighed. One recently organized cooperative also breaks the carcasses, fabricates the carcass sections into cuts, and vacuum packs the cuts. Members are paid according to a procedure set up in advance, usually on the basis of quality and/or yield grade of the chilled hanging weight of each carcass. The lambs and subsequently the carcasses are identified by a producer code until they are delivered to the buyer. This procedure enables the cooperative to help producers correct quality problems and protect the cooperative's reputation with its buyers.

The cooperative is usually responsible for picking up the carcasses or cuts at the slaughter facility and delivering them to buyers. A route delivery system can be used to increase the efficiency of these deliveries. All processing fees, billing and collection procedures, and payments to the producers are handled by the cooperative.

NICHE MARKETS

Many consumers are eager to purchase lamb with specific quality characteristics and in some cases these quality attributes are more important to these people than price. As a result, a wide variety of niche markets are available to producers of lamb with specific attributes. The types of niche markets targeted by established lamb marketing cooperatives and those being considered by both established and newly organized cooperatives as well as emerging producer groups are described here. The discussion of niche markets is broken down into

the types of market outlets through which lamb is sold, the quality requirements of specific market niches, and the types of value-added products that may increase a cooperative's returns.

Market Outlets

Retail Food Stores The established cooperatives market whole carcasses and, to a much lesser extent, primal cuts to retail food stores. Cooperatives choosing to market primal cuts use a pricing formula for the most popular cuts and locate alternative markets for slower moving cuts.

Buyers for retail food stores demand a consistent quality product, a year-round source of supply, and prices that are competitive with other sources of supply. Retail buyers purchasing lamb from local producers must be convinced of the quality and uniqueness of the product or they will shift their purchases to more traditional sources of supply. Lamb has a 10-14 day shelf life from the time of slaughter and as a result, freshness is an important way to differentiate the quality of local lamb when marketing to retailers. Properly handled, locally grown and slaughtered lamb will have a longer shelf life in the retailer's meat case than lamb shipped from more distant locations.

Another way to differentiate lamb from a cooperative is to sell the lamb under a unique brand name. Branded meat and nutrient labeling are becoming more prevalent and can be used to increase consumer recognition of high quality products. One established cooperative targeting retail food stores already differentiates its lamb in this way. The cooperative maintains that the branding of the lamb helps retailers 1) differentiate their store from competing stores carrying only non-branded lamb, 2) carry two distinct quality lines of lamb and charge a premium for higher quality, 3) demonstrate their support of local agriculture, and 4) direct customer complaints to the cooperative and not the store itself.

Cooperatives targeting retailers who package their own meat should supply these retailers with the ASI "Fresh American Lamb" peel-off labels. Cooperatives marketing branded meat to these retailers must also supply them with the coopera-

tives' brand label. Both types of labels should always be provided in amounts equal to the number of marketable packages expected from the delivered carcasses.

The cooperatives marketing to retail food stores have targeted specialized retailers who feature full-service meat departments. These specialized stores, like traditional butcher shops, demand higher quality meats that will differentiate them from the larger supermarkets. In addition, they usually have the ability to break and package carcasses as primal and subprimal cuts. There is a much greater emphasis on merchandising in this type of store and the attending butcher often debones the lamb and makes oven-ready cuts and easy-carve legs. It is not surprising, therefore, that one cooperative's lamb does better in this situation than in self-service meat counters.

The smaller specialized retailers and traditional butcher shops are declining in numbers and volume of sales. As the supermarkets become larger, there is a continuing expansion of self-service meat counters. Many of these supermarkets obtain most of their meats through centralized purchasing warehouses, thus making it more difficult to sell directly to the local supermarket. These shifts in the retail food industry will require cooperatives to be more competitive by controlling costs, marketing more primal cuts, acquiring an increased capability for modern packaging techniques, and developing more new products that appeal to health-conscious, convenience-oriented consumers. Targeting these markets will take considerable financial resources and for these lamb marketing cooperatives to be profitable, the costs must be spread across large volumes of lamb. Some cooperatives simply will not be able to compete in these markets. If profitable volumes cannot be attained by individual cooperatives, a federation of cooperatives may be a possibility.

Restaurants In general, restaurants require fresh primal and subprimal cuts of lamb, though some do purchase frozen lamb. Although racks, loins, and legs are demanded most often by restaurants, outlets also exist for the less expensive cuts and organ meats with some ethnic restaurants.

Cooperatives targeting restaurants must develop a formula to price different cuts and locate other restaurants or alternative markets for the slower moving cuts. Despite the tendency of restaurants to purchase specific portions of the lamb carcass, one cooperative markets hot house lambs to a French restaurant year-round.

Dealing with chefs is a major challenge when targeting the restaurant market. To establish restaurant accounts, there is no substitute for the cooperative's sales representative visiting the chefs or buyers for each potential client. Communication difficulties can arise during visits to ethnic restaurants because chefs or buyers may speak little or no English. A restaurant packet can be purchased from ASI to use during restaurant visits. It includes illustrated recipe cards, table tents, and cooking instructions. If the chef or buyer is agreeable, preparing a sample of lamb using one of the ASI recipes will demonstrate the quality of both the cooperative's lamb and the ASI recipe.

Other challenges a cooperative will face when targeting restaurants include seasonal closing of restaurants in some areas and the collection of bad checks and late payments. Restaurants as a group have a poor record of financial success and care should be taken in the management of the accounts receivable. Restricting restaurant accounts to a predetermined geographical area will also help the cooperative's efficiency when making deliveries.

Mail Order Sales Mail order selling is a specialized way in which cooperatives can market large quantities of lamb to customers over a wide geographic area. The mail order business is based on the distribution of high quality brochures to a large number of potential customers. Whole carcasses, half carcasses, quarter carcasses, and individual cuts are sold through this market outlet. A cooperative marketing lamb cuts through the mail must work out a pricing formula for the various cuts and develop alternate markets for the slower moving cuts.

Mail order sales are most often targeted at home customers, although one individual producer has successfully marketed to gourmet restaurants through the mail. No cooperatives are marketing

through mail order channels. However, some of the emerging producer groups have producers selling through mail order and are considering mail order sales in their marketing mix.

The home customer usually has substantially less knowledge about lamb than buyers for the retail food store and restaurant outlets. Therefore, a major concern of cooperatives entering the mail order business should be to educate the consumer on how to buy, store, and prepare lamb. For example, many customers have no concept of how much meat can be expected from a single lamb. Questions about dressing percentages, the cuts of lambs received, and how the price and quality of these cuts compare with lamb bought at a food store will need to be addressed in the mail order brochure and in other communications. Followup telephone calls about one month after each lamb sale are a way to make sure the customer is satisfied.

The cost to a cooperative to enter the mail order business for lamb can be expected to be substantial. In addition, the manager will need some expertise in managing this type of business. An advertising firm is usually needed to develop a high-quality sales brochure with color photographs, logo, and cover letter. Obtaining access to an appropriate mailing list through an advertising company or from other sources can be expensive. Additional charges will also be incurred each subsequent year to update the materials and the mailing list. Accepting major credit cards and providing a toll-free telephone number to receive orders have proved beneficial to several individual producers. Because of the substantial cost involved in establishing a mail order business, cooperatives should not attempt to start such a business on a small scale.

An alternative for cooperatives seeking to develop their own mail order business is to have their products included in an existing mail order catalogue. Although a commission would be charged for all products sold, the cooperative would be able to avoid the costs and the risks associated with starting their own mail order business. Some State departments of agriculture publish guides listing producers and cooperatives who sell their products by mail. Participation in these

consumer guides can be helpful in locating new customers.

Specialty Wholesalers Lamb marketing cooperatives can market their products through a variety of specialty wholesalers. Although the price sensitivity of these markets varies widely, in general they are more sensitive to price and less sensitive to quality factors than are the specialty retail food stores. Some of these outlets that cooperatives and emerging producer groups have explored include hotel, restaurant, and institutional (HRI) distributors; a culinary school; deli product distributors; the public school lunch program; and a ship chandler or supplier.

These market outlets provide several advantages to lamb marketing cooperatives. Many specialty wholesalers have the capacity to break, package, and deliver lamb, eliminating the need for the cooperative to incur higher processing and delivery costs or to purchase specialized equipment to service specialized market outlets. When marketing to specialty wholesalers, the cooperative deals with fewer buyers while maintaining access to a large number of market outlets. One drawback to this market outlet is that the cooperative becomes more vulnerable to quickly losing a major share of its market if one of the few large buyers discontinues purchasing from the cooperative.

Lamb marketed by cooperatives to HRI distributors is sold to various restaurant accounts. By marketing their lamb through the HRI distributor, these cooperatives avoid the problems of dealing directly with a large number of restaurants. Many restaurants often buy relatively small amounts of lamb per week, purchase only specific cuts, are located over a wide geographic area, and often operate under financial stress resulting in late payments and bad checks to suppliers.

A niche market for lamb developed by one cooperative is to a culinary school. The culinary school places more emphasis on the quality of the product than do most of the other specialty wholesalers. Because the cooperative supplying this school places an equally high emphasis on quality, the cooperative management feels that the school is unlikely to switch suppliers based upon price. The

culinary school is also a stable market for this cooperative because it requires eight lambs per week year-round.

One newly organized cooperative has developed a connection with a deli product distributor through which it plans to market value-added deli lamb products in the future. Another newly organized cooperative has examined the possibility of slaughtering its lambs at a Federally inspected facility that already has a contract to supply meat products to a public school system. An emerging producer group is exploring the possibility of marketing to a ship chandler. Although this market would purchase substantial quantities to supply a large number of ships, the price of the product must be competitive.

Quality Niches A substantial number of consumers would like to purchase lamb but find the quality of lamb offered through many retail market outlets in their area unacceptable. Cooperatives can work with their producers to help them achieve the specific quality characteristics desired by the consumer. The cooperative may also need to work with the custom slaughter operator to preserve or further develop the quality characteristics wanted by the customer. The most important quality attributes sought by various consumers include lean meat, organic lamb, gourmet cuts, religious certification processes, and regional identity.

Lean Meat Low fat products and lean meat are becoming more and more important to consumers in the United States. Cooperatives may need to modify production and processing practices to meet the demands of these customers. To assure consumers of this quality, cooperatives may need to request Federal grading of carcasses and use the resulting quality grades to provide feedback to members on the leanness of their carcasses. Federal grading and the ASI Certified Fresh American Lamb program are both designed to assure buyers that they are receiving a lean product. In addition, nutritional labeling of meat is becoming more prominent and is aimed at the final consumer. At

least one newly organized cooperative will attach nutritional labels to its products in the near future. Lean lamb and to a lesser extent nutritional labeling are becoming more important to retail food stores, restaurants, mail order firms, and specialty wholesalers.

Organic Niche Consumers purchasing organic products are concerned about modern production practices and how they affect the wholesomeness of their food and therefore their own health. In many cases these customers strongly believe that the quality of the final product is also enhanced when pesticides, growth hormones, and antibiotics are eliminated from the production process. Organic lamb is most often sold through specialty food stores, butcher shops, restaurants, and mail order market outlets. Although most consumers demanding organic products are willing to pay more, price often remains an important factor.

The definitions of natural, organic, and chemical-free products are still being debated by regulatory agencies, elected representatives, and producers. Currently, the terms imply various levels of production practices that feed animals only food that has not been treated with pesticides and chemical sprays and refrain from administering growth hormones and antibiotics. Certification programs for some of these definitions are being initiated by Federal and State agencies as well as several grower organizations.

Gourmet Niche The quality conscious customers of the gourmet niche require exceptionally palatable lamb cuts, hothouse lambs, and less often, whole carcasses. Gourmet lamb can be marketed to some retail food stores, restaurants, mail order firms, and specialty wholesalers such as culinary schools. The gourmet niche market is much more sensitive to quality characteristics of gourmet lamb than it is to price. Because quality is such an important factor in the gourmet niche, all handling procedures must be state-of-the-art to produce lamb products of the highest palatability.

The specific handling procedures that either affect the palatability of the lamb or the customer's

perception of that palatability include slaughtering, cutting, deboning, packaging, labeling, freezing, and shipping. Since all these procedures except shipping will be performed by the slaughter facility, it is especially vital for cooperatives contracting with custom slaughter facilities to clearly establish the quality criteria for each procedure.

Halal and Kosher Certification Islam and Judaism are two prevalent Middle Eastern religions that espouse strict dietary laws and have a tradition of eating lamb or mutton. Meat slaughtered in compliance with the Islamic dietary laws is termed "halal" and that slaughtered in compliance with the Jewish dietary laws is termed "kosher." Halal and kosher meat can be marketed through some retail food stores, restaurants and, to a lesser extent, through some specialty wholesalers.

In general, the requirements for Islamic halal meat are much less stringent than for Jewish kosher meat. To qualify for the halal designation, the head of the lamb or sheep must be turned toward Mecca, Saudi Arabia. Then the slaughterer must say a specific prayer and quickly slit the animal's throat so as to sever the jugular vein immediately. All blood must be allowed to drain out of the animal before it can be butchered.

The slaughter procedure for lamb or sheep to be designated as kosher must be performed by a believing Jew knowledgeable in the ritual laws of slaughtering. By custom, the individual performing the slaughter should be a Rabbi or receive written authorization from a rabbinical authority. The animal's trachea and esophagus must be severed quickly, using a knife which has no imperfections and all the blood must be drained from the animal. The carcass and especially the lung cavity must be examined and passed before the carcass can proceed through the kosher process. All visible imperfections and many perceived imperfections are grounds for kosher rejection. One cooperative targeting this market has had the percentage of carcasses passing inspection range widely from 30 to 85 percent.

Many Jewish communities do not use the hind quarters of an animal for kosher meat unless other cuts of meat are not readily available. The conven-

tion came about because it is difficult to remove the forbidden fat and sinews from the meat of the hind quarters. Therefore, the opportunity exists for cooperatives targeting the kosher market to develop an alternative outlet for the leftover hind quarters.

Regional Identity Several lamb marketing cooperatives have decided to pursue a regional identity for their product. Such an image denotes a perception of freshness and quality that cannot be achieved by similar lamb products shipped across the country or from another country. Products bearing regional labels can be marketed through retail food stores, restaurants, mail order firms and, to a lesser extent, specialty wholesalers.

Many States are promoting local products by developing logos and advertising campaigns based upon a State image. Many consumers are more than willing to support local agriculture if the quality of the products is equal to or greater than the quality of the same product produced in other states or countries. However, several problems have arisen that can affect a cooperative's willingness or ability to participate in specific State programs. Several programs have been criticized for not setting quality standards or for not maintaining quality for the products sold under the State logo. Another criticism is that these programs have specific requirements that do not relate to qualities that can be seen or tasted. Examples of such criteria are where a lamb was born or how long it was in the State before it was slaughtered.

Value-Added Products

To date, few value-added products have actually been developed and marketed by established cooperatives. However, a wide range of these products have been developed and marketed by individual producers on a small scale. Several cooperatives have also generated a number of ideas and market outlets for additional products. The value-added products that may be of interest include sausage, summer sausage, lamb-filled breadsticks, processed seasoned cutlet, marinated lamb, shish kabobs, cubes, strips for stir frying, cured legs, and chislic.

The sausage developed by one cooperative won a State taste test and has been marketed to a limited extent to home customers. The same cooperative also developed some summer sausage that was marketed through a regional food fair. Although this cooperative would like to increase the production of both products, it does not have enough lambs to produce these products and service its markets. In addition, the cooperative has been unable to negotiate competitive processing costs for these value-added products with its current custom slaughterer.

The lamb-filled breadsticks are the idea of a newly organized cooperative that has been working with a sandwich distributor who sells meat-filled breadsticks. The cooperative has worked with its land-grant university to develop curry, mincemeat, and pizza lamb fillings for these breadsticks and to identify the technology needed for such a venture.

A processed seasoned cutlet was also developed by a newly organized cooperative, with the help of its land-grant university. Specialized equipment is used to debone the carcass, trim fat, and shred the meat. Seasonings are added to the meat, which is then reformed in a mold as a 3-ounce serving. The result is a lean product in single-serving proportions. The specialized equipment needed for this process would be prohibitively expensive for most cooperatives.

Marinated lamb chops, shish kabobs packaged on the skewer, and cubes for stir frying have all been mentioned as possibilities for value-added products. Cured legs of lamb and mutton to be prepared like the more familiar pork hams could also help decrease the uncertainty of many consumers on how to prepare lamb. In addition, a product named chislic provides an interesting alternative market for cull ewes. Chislic is made from strips of mutton from which all the fat has been trimmed. The mutton strips are placed in very hot fat for a very short time and then rolled in seasoned salt. Chislic is served as hors d'oeuvres or appetizers.

Value-added products can increase member returns by further processing slower moving cuts of lamb into consumer-oriented products, providing a market outlet for cull ewes, or making quality

lamb more attractive to consumers. However, these products take time and money to develop, to gain approval for quality niche labeling when necessary, to get tested for nutrient labeling when appropriate, and to get accepted by market outlets. The packaging and processing costs of many of these products are considerable. Despite the costs, value-added products are becoming more prevalent in the meat industry and commodity groups not keeping pace are losing market share. As two-income families increase, consumers are becoming more interested in ready-to-cook items in consumer-oriented packaging.

COOPERATIVE MARKETING STRATEGIES

To compete successfully with other lamb marketing businesses, lamb marketing cooperatives must have strategies in place to induce supply consistency, quality consistency, buyer satisfaction, as well as member satisfaction. In addition, the cooperative should develop strategies to expand the sales of its products through product promotion and market development programs.

Supply Consistency

Consistency of supply is the most important factor to most commercial lamb buyers when considering a new source of lamb, according to the manager of an established lamb marketing cooperative. Factors working against monthly and weekly supply consistency for the cooperative include the tendency of sheep toward seasonal breeding and the increased number of part-time farmers considering cooperatives as an alternative market for their lambs. While part-time farmers are a good source of supply, many do not have the desire, resources, or the knowledge to adjust production practices to help the cooperative equalize seasonal supplies.

One cooperative has implemented several programs to equalize the number of lambs the cooperative markets each month and to increase the total number of lambs sold throughout the year. This cooperative guarantees members both a mar-

ket outlet and a minimum price for lambs meeting minimum quality standards. Because this cooperative has developed niche markets willing to pay premium prices for a consistent supply of quality lamb, it is able to assume the majority of the price risk normally assumed by producers.

This cooperative sets an annual minimum price based upon the current Eastern Carlot Price for carcasses weighing 55 pounds or less. Members are guaranteed the minimum price even if the Eastern Carlot Price falls or the cooperative has to market the lamb at a loss. However, if the Eastern Carlot Price rises above the minimum price, the cooperative will pay members the higher price up to a predetermined maximum price. Because no processing fees are deducted from the minimum price, member producers can know with near certainty the minimum returns they will receive from lambs marketed through the cooperative. Although the combination of a guaranteed market and minimum price represents a high level of risk to the cooperative, it also provides market security for cooperative members and helps increase the volume of member lambs marketed through the cooperative.

Another way in which this cooperative maintains year-round supply consistency is to offer seasonal price incentives to its producers. A combination of physiological aspects of sheep and seasonal weather patterns results in higher costs of production for lambs marketed from February through June. Therefore, the cooperative offers a seasonal price premium of five cents per pound for lambs marketed in February, 10 cents in March, 15 cents in April, 10 cents in May, and five cents in June, in addition to the guaranteed minimum price. Although this cooperative tried other programs such as contracting with members on a cost-plus basis to feed lambs during periods of low supply, feedback from members indicates that the cooperative must increase members' checks at the time of sale to encourage consistent lamb production by the members. Specifically, later checks in the form of patronage refunds do not seem to stimulate increased member production even though these checks represent increased returns for past lamb sales.

Marketing agreements between the cooperative and its members are used by lamb marketing cooperatives striving to maintain a consistent supply. These agreements can include the incentive programs mentioned above and can commit members to marketing all or a percentage of their lambs through the cooperative. However, violations of the marketing contract are often hard to enforce since the cooperative's board of directors is often unwilling to take action against a fellow member.

To maintain market outlets requiring consistent volume of lambs, cooperatives have purchased lambs from nonmembers during periods of low member supply. One of these cooperatives approaches the purchase of nonmember lambs in a systematic manner. First, the cooperative tries to buy quality lambs from nonmembers in the members' geographic area for a price at or below that paid to members. This way, a nonmember will never receive a better price from the cooperative than his or her neighbor who is a member. If the cooperative cannot purchase enough lambs by this method, the cooperative will then look outside the cooperative's membership region and purchase the needed lambs at any price.

Lamb marketing cooperatives targeting mail order sales to individuals are in a different situation than those targeting commercial lamb buyers. These cooperatives will have periods of peak demand around religious holidays in the winter and spring. These groups also have more flexibility to plan mailing schedules around lamb availability. Despite the increased flexibility, cooperatives selling via mail order should still consider offering seasonal incentives to increase the number of lambs available for the spring religious holidays.

Quality Consistency

Quality consistency can be encouraged through marketing agreements and/or with price incentives in much the same way as supply consistency discussed in the previous section. One established cooperative offers a 10-cent-per-pound price premium for all yield grade 2 lamb carcasses weighing 40-55.5 pounds and grading choice or prime. This price premium promotes the timely

shipping of lambs before certain quality factors begin to deteriorate.

Price disincentives are also a powerful way to encourage members to produce quality lambs. In addition to the yield grade 2 price incentive just mentioned, the cooperative also deducts 10 cents per pound discount from the guaranteed minimum price for all carcasses not grading choice and another 10 cent per pound discount is subtracted for all yield grade 4 carcasses. Although yield grade 5 carcasses can be returned by the cooperative to the producer, the cooperative more often charges the producer a handling fee and tries to find a suitable market for the substandard carcass.

Special quality-related characteristics, such as specific production techniques, can also be encouraged by using price incentives. One cooperative pays members a 10-cent-per-pound premium in addition to a guaranteed minimum price for all lamb carcasses meeting specific criteria. The carcass must fall within yield grades 1-3 and have been produced without antibiotics and hormones. Specific management practices must also exist to ensure the separation of these sheep from those produced by more traditional practices.

Buyer Satisfaction

Buyer satisfaction is critical to a cooperative's success and three important factors to the commercial buyers are 1) a consistent quality product, 2) a year-round supply, and 3) prices that are competitive with other sources of supply or are justified through product characteristics. Specific market outlets may emphasize some of these factors over others. For example, natural/organic and gourmet market outlets tend to be less price sensitive than most other markets. Developing cooperative policy concerning minimum quality requirements and price incentives around buyer requirements can help a new cooperative communicate to its members exactly what type of lamb is needed to service the chosen market outlets.

A liberal or unconditional guarantee of quality can significantly increase buyer confidence in the cooperative's product. Several established lamb cooperatives marketing to commercial buyers

either replace or provide price compensation for inferior product that slips through the cooperatives' quality control system. The compensation in each case is tied to what the buyer feels is adequate and in most cases the meat in question is not even viewed by a cooperative representative. Cooperatives selling via mail order may need to word guarantees carefully so as not to be liable for negligence on the part of the purchaser if the product is not handled promptly upon delivery.

Member Satisfaction

Even though a cooperative is a user-owned business, care must be taken to ensure that member satisfaction does not become low priority and that a "we versus they" attitude does not develop. To avoid this pitfall, the cooperative board of directors must set policies that are both in line with member interests and the long-term interests of the cooperative. Members' primary interests are to receive a fair price for each lamb marketed and to have the cooperative represent their interests with appropriate market outlets. To serve members in these ways, the cooperative must achieve profitable volumes, acquire quality lambs, and maintain a consistent supply.

Member satisfaction is closely tied to the payments received at the time of the sales. Increasing the amount of these payments contributes more to member satisfaction than almost anything else the cooperative can do. Quality and seasonal price incentives tied to specific requirements of the cooperative's buyers are an effective policy tool that can protect the market reputation of the cooperative, promote timely quality production and, as a result, increase the cooperative's market security and members' returns.

Other programs used to increase member satisfaction with existing cooperatives include a guaranteed minimum price and trial membership in the cooperative. The guaranteed minimum price offered by one cooperative strives to promote member trust by ensuring members a minimum return from which no additional packing, processing, or marketing fees are subtracted. Per-unit retains are the only item this cooperative deducts

from member checks and these are also set at predetermined levels of \$2 or \$3 per lamb, depending on the cumulative volume marketed through the cooperative each year.

The trial membership option offered by the same cooperative enables the manager to do business with new producers who cannot or will not pay the cooperative's membership fee. This program enables interested producers to pay a \$25 annual subscription fee for up to 2 years instead of the \$200 membership fee. Trial members can receive the cooperative's guaranteed minimum price and participate in the quality and seasonal incentive programs. Fees equal to capital retains paid by members are collected during the trial membership. Fees that are not used to offset cooperative operating losses are applied to the trial member's cooperative membership fee. Trial members achieve full membership and voting status when the membership fee is accumulated or the balance is paid to the cooperative at the end of the 2-year period. Nonmembers are not allowed to participate in either the guaranteed minimum price or quality and seasonal price incentive programs.

Product Promotion

Cooperatives promote their products several ways to potential end-user customers. In-store demonstrations, point-of-purchase materials, and spot sales have been used with varying degrees of success by existing cooperatives targeting retail food stores, butcher shops, and restaurants. Cooperatives selling through mail order promote their product in mail order brochures and may also conduct paid advertising in magazines and other media channels.

In-store demonstrations are the most effective method of promotion for one cooperative targeting retail food stores and butcher shops. This cooperative increased the volume sold through one store from three carcasses per week to 10 carcasses per week after in-store demonstrations. The manager believes in-store demonstrations are the key to getting established with customers in a new store. He also continues to conduct demonstrations in stores with existing accounts at less frequent intervals.

Member-producers who conducted the initial in-store demonstrations for this cooperative had an increased awareness of the end consumer's demands. However, as the volume of the cooperative has increased, producers are less willing to conduct demonstrations and the cooperative has begun hiring members' employees or family members who enjoy working with people to conduct the demonstrations.

Point-of-purchase materials used to promote lamb include displays, pull-off recipe sheets, and table tents designed for use in self-service situations, such as in retail food stores and restaurants. Some of these materials may also be appropriate for use in full-service butcher shops. Many point-of-purchase materials have been developed by ASI and are available to lamb marketing cooperatives.

Price reductions for sales to retail food stores, butcher shops, and restaurants have been used by two cooperatives with mixed results. One cooperative is pleased with the results of these sales because they helped move excess lamb. The other no longer offers price reductions because the cooperative's objective of increasing market volume after the sales were over was not achieved. Other promotion programs that may help lamb marketing cooperatives expose their product to potential customers include branding their product, providing samples of lamb to restaurant chefs and institutional buyers, preparing block ads for new retail food store and butcher shop clients, and participating in joint advertising with other local products.

Market Concentration of Buyers

Market concentration of buyers of lamb products is becoming more of a problem for lamb marketing cooperatives as the food industry is increasingly subject to buyouts and reorganizations. This is particularly true of retail food stores where a new corporate management can reverse local purchasing policies of what were previously independent stores. Even where the parent corporation's management elects to allow individual stores the freedom to purchase meats, cooperatives are still vulnerable to policy reversals. Therefore, lamb

marketing cooperatives must develop strategies to continually identify new markets and alternative outlets.

One cooperative thoroughly investigates potential market outlets before approaching the buyer. The cooperative examines the type of customer the market outlet services, the volume of lamb the outlet sells, and whether the cooperative's product would fit the market outlet's image. In addition, the potential market outlet must also be located near existing accounts for ease of delivery. If these criteria are met, this cooperative then waits until the required volume is available from members before approaching the potential buyer. As a result, the cooperative can follow up immediately if the market buyer is interested. The cooperative also provides the new client with a block ad ready to be used in the client's regular advertising program.

ORGANIZING A NICHE MARKETING COOPERATIVE FOR LAMB

Forming a lamb marketing cooperative to target niche markets requires the same extensive planning as organizing any other small business. The extent of member support, the availability of niche markets, and the likelihood of financial success should be determined before organizing the cooperative.

A usual starting place is for interested producers to elect a steering committee from their group to oversee the evaluation and planning process. Advisers familiar with the sheep industry and cooperatives should be solicited to assist in evaluating the feasibility of organizing a new cooperative. County extension agents, marketing specialists at the land-grant university, State department of agriculture representatives, and economic development organization personnel are some of the many people who may be qualified and willing to work with a group of producers. Agricultural Cooperative Service (ACS) also helps developing cooperatives evaluate the feasibility of the enterprise and to provide organizational assistance.

A feasibility study is usually one of the early activities of the steering committee. This process includes producer meetings, a producer survey, a

market study, and a financial analysis. Producer meetings are normally held after the completion of each major segment of the process. These meetings provide opportunities for potential members to vote on whether to continue or modify the process to organize the cooperative.

The producer survey helps the steering committee estimate both the potential membership and the volume of lambs to be marketed through the cooperative. These estimates should be conservative since not all interested producers will market the volume of lamb through the cooperative recorded on the survey. The market study helps the steering committee identify potential markets for lambs in the form, quality, and quantity that the cooperative can supply.

The financial analysis is the process through which information obtained from the producer survey and market study are combined with information on facility and operating costs. To be an effective planning tool, the financial analysis should cover a planning horizon of 3 to 5 years and include pro forma operating and cash flow statements for each year. The results of the financial analysis should indicate the amount of capital required to capitalize the cooperative.

If the producers view the results of the feasibility study favorably and vote to proceed with cooperative formation, both articles of incorporation and bylaws should be drafted. The articles of incorporation, which are filed with the State government to make the organization a legal entity, describe the purpose and scope of the cooperative. The bylaws describe how the members, board of directors, and management will operate within the cooperative organizational structure. It is important that both documents be prepared with the help of an attorney to make sure they comply with State laws.

The board of directors will be responsible for establishing cooperative policy, hiring a manager, and subsequently evaluating the manager's performance. The cooperative's manager is responsible for directing the daily operations and business activities of the cooperative; setting goals and making short-range plans; and employing and dis-

charging employees. The daily operations and business activities of a lamb marketing cooperative include:

- maintaining good relations with producer members;
 - maintaining an inventory schedule of when members' lambs will be ready for slaughter;
 - arranging for timely delivery of lambs to slaughter facility;
 - maintaining complete records of member and buyer transactions;
 - calculating grower payments;
 - identifying and developing new market outlets;
 - negotiating prices with buyers;
 - arranging delivery of lamb to buyers;
 - conducting promotions and public relations activities;
 - maintaining the cooperative's quality standards for all product sold;
 - ensuring the prompt payment of accounts;
- and
- keeping the board of directors informed of the cooperative's position.

A cooperative's financial strategies play a vital role in its ability to serve its members and to survive in the long run. Adequate startup capital is the first financial hurdle a new cooperative has to face. Cooperatives contracting for lamb slaughter or leasing an existing slaughterhouse require substantially less startup capital than those purchasing or building their own slaughter facility. However, even these ventures will probably experience problems trying to finance the cooperative solely through member equity. New cooperatives usually obtain startup capital from a combination of sources including member equity, nonmember equity, loans, and grant support.

Member Equity

Members provide equity to the cooperative in several ways. Startup capital may be provided through membership fees, equity certificates, common stock, preferred stock, or other ownership instruments the cooperative may issue. New cooperative ventures should carefully set the level of

member capital required to join the cooperative based on several factors. A significant amount of the capital required to finance the venture should be supplied by the members to ensure member commitment to the cooperative, to qualify for loans from lending institutions, and to reduce annual interest on the cooperative after it begins operations. At the same time, every effort should be made not to set the capital requirements so high as to seriously discourage membership.

Other Sources of Capital

Other capital to start a new cooperative may be obtained sometimes through government and private grants, but the availability of these grants has been reduced in recent years. Certain types of cooperative stock may be sold to nonmembers, but the attractiveness of this stock to outside investors will probably render this a minor source of startup capital. Therefore, most capital is usually obtained through lending institutions. Two commonly used sources of long-term loans include local commercial banks and CoBank, the National Bank for Cooperatives. CoBank is a part of the Farm Credit System and information on how to contact a CoBank representative can be obtained from the local Farm Credit office.

Complete financial projections, including at least an operating statement, balance sheet, and a cash flow statement should be carefully prepared and assembled by the cooperative before approaching a lending institution about a loan. These statements should be based on well-researched information on projected volume, potential markets, expected prices, expected margins, facility costs, and operating costs. The cooperative may wish to obtain the assistance of a professional such as an agricultural economist from the land-grant University, an ACS/USDA specialist, an attorney, or certified public accountant. Several documents that are usually requested in the loan package include:

- *projected volume of production* from the producer survey;
- *market information* on potential buyers, expected prices, and volumes;

- *cash flow statement* detailing the cooperative's monthly cash income and expense prediction;
- *operating statement* indicating the cooperative's projected net margins;
- *balance sheet* projecting the future value of the cooperative, its solvency, and ability to satisfy creditors' claims;
- *schedule of fixed asset costs and depreciation* listing the equipment the cooperative needs to purchase or lease;
- *source and use of funds* (statement of cash flows) cash used and obtained from operations, investment, and financing activities; and
- *loan package summary table* showing the major items for which the loan capital and member equity will be spent.

Recordkeeping and Financial Statements

Accurate and complete records are necessary to maintain the financial statements required by the management, the board, and members of the cooperative. Recording member transactions, buyer orders, and product inventories, as well as calculating member returns, member fees, capital retains, patronage refunds, and employee salaries are among the more obvious records that must be maintained.

A microcomputer with suitable software can greatly improve a cooperative staff's ability to maintain these records. However, before the cooperative invests in office equipment and trains office personnel, new cooperative ventures should seriously consider hiring an accounting firm to maintain the cooperative's financial records and statements, calculate member and employee checks, and maintain tax records. The experiences of established small-scale cooperatives marketing products other than lamb indicate that high staff turnovers, due in part to low wages, seem to predispose them to poor recordkeeping practices.

Financial Planning

During the organizational phase, new cooperatives usually engage in the process of financial planning, but once organized they fail to continue the process. Cooperatives involved in long-term financial planning are better able to overcome technological, economic, and social changes in the future. The financial planning process assesses the cooperative's situation 3 to 5 years into the future, outlines the organization's objectives, and develops a course of action to achieve those objectives. Financial planning should not be a one-time activity but an annual process.

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**U.S. Department of Agriculture
Agricultural Cooperative Service**
P.O. Box 96576
Washington, D.C. 20090-6576

Agricultural Cooperative Service (ACS) provides research, management, and educational assistance to cooperatives to strengthen the economic position of farmers and other rural residents. It works directly with cooperative leaders and Federal and State agencies to improve organization, leadership, and operation of cooperatives and to give guidance to further development.

The agency (1) helps farmers and other rural residents develop cooperatives to obtain supplies and services at lower cost and to get better prices for products they sell; (2) advises rural residents on developing existing resources through cooperative action to enhance rural living; (3) helps cooperatives improve services and operating efficiency; (4) informs members, directors, employees, and the public on how cooperatives work and benefit their members and their communities; and (5) encourages international cooperative programs.

ACS publishes research and educational materials and issues *Farmer Cooperatives* magazine. All programs and activities are conducted on a nondiscriminatory basis, without regard to race, creed, color, sex, age, marital status, handicap, or national origin.